

Message Text

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INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 L-03 H-02 PA-03

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R 021130Z JUL 73

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 8421

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMCONSUL RECIFE

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E.O. 11652: N/A

TAGS: EFIN, BR

SUBJ: APPEARANCE OF FINANCE MINISTER DELFIM NETO BEFORE PLENARY
SESSION OF CHAMBER OF DEPUTIES OF BRAZILIAN CONGRESS

1. SUMMARY: FINANCE MINISTER DELFIM NETO APPEARED BEFORE
A PLENARY SESSION OF CHAMBER OF DEPUTIES OF BRAZILIAN
NATIONAL CONGRESS ON JUNE 26. IN PRESENTATION LASTING OVER
AN HOUR, MINISTER STOUTLY DEFENDED ACTIONS AND POLICIES OF
MEDICI ADMINISTRATION IN ECONOMIC AREA. HE BACKED UP HIS
PRESENTATION WITH 48 PAGE LEGAL SIZE BROCHURE OF TABLES AND
EXPLANATORY COMMENT. PRESENTATION WAS FOLLOWED BY QUESTION
PERIOD IN WHICH MINISTER'S INTERCHANGE WITH DEPUTIES BECAME
HEATED AT TIMES. MINISTER'S PRESENTATION, THOUGH IMPRESSIVE,
DID NOT CONVINCE HIS OPPONENTS, OR REPRESENTATIVES OF
SPECIAL INTEREST GROUPS WHO FEEL THEY SHOULD BE GETTING MORE
THAN THEY ARE FROM CURRENT ECONOMIC PROSPERITY. EVENT WAS
SIGNIFICANT IN TERMS OF AFFORDING SIGNIFICANT USEFUL FUNCTION
TO CHAMBER OF DEPUTIES TO AIR IN OPEN DEBATE DIFFERENCES OF
VIEW REGARDING NATIONAL ECONOMIC POLICY, SOMETHING WHICH
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HAS NOT BEEN TOO EASY TO DO IN RECENT YEARS IN BRAZIL.
END OF SUMMARY

2. IN A HIGHLY UNUSUAL PROCEDURE FINANCE MINISTER DELFIM

NETO APPEARED BEFORE CHAMBER OF DEPUTIES OF BRAZILIAN NATIONAL CONGRESS ON JUNE 26. MINISTER HAD ORIGINALLY BEEN REQUESTED TO APPEAR BEFORE A COMMITTEE OF CHAMBER TO DISCUSS CERTAIN SPECIFIC TOPICS, BUT CHOSE INSTEAD TO OFFER TO APPEAR VOLUNTARILY BEFORE FULL CHAMBER. LATTER PROCEDURE UNDERSTOOD, UNDER PARLIAMENTARY RULES, TO PERMIT MINISTER AND DEPUTIES TO ENGAGE IN WIDE RANGING DISCUSSION NOT LIMITED TO POINTS ORIGINALLY INCLUDED IN COMMITTEE REQUEST.

3. DELFIM SPOKE UNINTERRUPTEDLY FOR 75 MINUTES FOLLOWING OUTLINE OF 48 PAGE LEGAL SIZE ASSEMBLY OF DATA AND COMMENTS WHICH WAS PREVIOUSLY DISTRIBUTED TO DEPUTIES TO ASSIST THEM IN FOLLOWING MINISTER'S PRESENTATION.

4. FOLLOWING CONCLUSION OF MINISTER'S PRESENTATION, DEPUTIES WERE PERMITTED TO QUESTION MINISTER. THERE WAS WRANGLE OVER SPEAKING TIME TO BE ALLOTTED TO EACH DEPUTY WHICH WAS ULTIMATELY FIXED AT 10 MINUTES. DEPUTIES, PARTICULARLY FROM AGRICULTURAL CONSTITUENCIES IN SOUTH, BUT OTHERS AS WELL, IN ADDITION TO GRANDSTANDING FOR THEIR HOME CONSTITUENCIES ASKED HARD HITTING QUESTIONS. EXCHANGE AT POINTS BECAME RATHER HEATED. PROCEDURE ADOPTED PROVIDED TIME FOR ONLY 8 OF 30 DEPUTIES WHO HAD PREVIOUSLY INDICATED DESIRE TO QUESTION MINISTER, TO PUT THEIR QUESTIONS.

5. MAIN THRUST OF MINISTER'S FORMAL PRESENTATION DEVOTED TO REFUTING FIVE CRITICISMS OF THE PROCESS OF ECONOMIC DEVELOPMENT IN BRAZIL WHICH HE IDENTIFIED AS BEING MOST IMPORTANT. THESE WERE: A) ECONOMIC DEVELOPMENT HAS BEEN OBTAINED BY SACRIFICING AGRICULTURE AND CATTLE SECTORS, ALWAYS BENEFITTING INDUSTRIAL SECTOR; B) POOREST REGIONS ARE NOT PROPERLY BENEFITTED. DEVELOPMENT OPERATES TO MAKE POPULATIONS IN SOUTH MORE PROSPEROUS TO DETRIMENT OF NORTH AND NORTHEAST; C) MAJORITY OF BRAZILIANS OF LOW INCOME ARE WORKING ONLY TO ENRICH MORE AND MORE THEIR BROTHERS OF HIGH INCOME; D) PROFITS OF DEVELOPMENT BELONG TO FOREIGN CAPITAL; E) FOREIGN DEBT IS A TIME BOMB. PRESENT GENERATION OF BRAZILIANS IS ENTERING INTO LIMITED OFFICIAL USE
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DEBT OBLIGATIONS IN AN IRRESPONSIBLE MANNER, THUS THREATENING TO LEAVE A HEAVY LEGACY TO FUTURE GENERATIONS.

6. BEFORE ADDRESSING HIMSELF TO ANSWERING FIVE MAIN CRITICISMS MINISTER OFFERED SEVERAL GENERAL OBSERVATIONS. LOW PER CAPITA INCOME IN BRAZIL IS BASICALLY DUE TO ITS LOW PRODUCTIVITY IN AGRICULTURE. DESPITE THIS, BRAZIL MUST HAVE RAPID GROWTH IN AGRICULTURE TO SUSTAIN CONTINUED DEVELOPMENT. INFLATION DOES NOT CONTRIBUTE TO, BUT HINDERS, DEVELOPMENT. INCREASING ATTENTION TO EXPORTS DOES NOT INCREASE VULNERABILITY OF BRAZILIAN ECONOMY; RATHER FOREIGN TRADE IS MOST POWERFUL INSTRUMENT OF ADJUSTMENT BETWEEN PHYSICAL PRODUCTION

POTENTIAL AND EFFECTIVE DEMAND.

7. IN ATTEMPTING TO REFUTE CHARGE THAT AGRICULTURE IS BEARING BURDEN OF DEVELOPMENT, MINISTER MARSHALLED 16 PAGES OF CHARTS AND ARGUMENTATION PURPORTING TO SHOW THAT SINCE 1969 TERMS OF TRADE HAVE TURNED IN FAVOR OF AGRICULTURAL SECTOR. GOVERNMENT HAS CONTRIBUTED TO AGRICULTURAL PROSPERITY BY ITS VARIOUS INCENTIVE PROGRAMS, INCLUDING INCREASE IN TECHNICAL ASSISTANCE, EFFICIENT POLICY OF MINIMUM PRICES, ALMOST COMPLETE ELIMINATION OF INCOME TAX FOR 10 YEARS, REDUCTION OF FEDERAL AND STATE SALES TAXES ON AGRICULTURAL INPUTS AND ON SALES OF SOME AGRICULTURAL PRODUCTS, NEGATIVE INTEREST RATES, AND TRANSFERRING TO SECTOR PROFITS GENERATED BY FOREIGN SALES AT HIGH PRICES THROUGH FLEXIBLE EXCHANGE RATE POLICY. PROBLEM IS BASICALLY ONE OF EFFICIENCY AND PRODUCTIVITY. IN CASE OF WHEAT, FOR EXAMPLE, MINISTER CLAIMED THAT PRODUCTION OF 800 KILOGRAMS PER HECTARE WAS BREAK EVEN POINT. IN GENERAL LARGE OPERATORS DO MUCH BETTER THAN THIS AND MAKE MONEY, WHEREAS MORE NUMEROUS SMALL FARMERS DO NO. MINISTER COMMENTED THAT BRAZIL COULD NOT DEVELOP ON BASIS OF INEFFICIENCY. IN SUBSEQUENT DAYS WHEAT GROWERS ASSOCIATION, AS MIGHT BE EXPECTED, DISPUTED DATA CITED BY MINISTER AND WHICH WERE DEVELOPED BY HIS STAFF.

8. AS FOR REGIONAL DISPARITIES, MINISTER RESTRICTED HIMSELF TO PRESENTING DATA INDICATING CLEARLY THAT SUCH DISPARITIES DO EXIST. THEY ARE EXPLAINED PRINCIPALLY BY RELATIVELY LOW PRODUCTIVITY IN POOR REGIONS, PARTICULARLY IN AGRICULTURE. THIS IS DUE IN PART AT LEAST TO LOWER OUTPUT PER AREA AND LIMITED OFFICIAL USE
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LOWER AREA AVAILABLE PER WORKER. IN GENERAL, BRAZIL HAS AN UNFAVORABLY LOW RATION BETWEEN WORKING POPULATION AND TOTAL POPULATION. IN THE UNITED STATES EACH WORKER SUPPORTS 1.41 PERSONS, IN BRAZIL 3.15. ON A PURELY ARITHMETIC BASIS, IF BRAZIL HAD U.S. RATIO, PER CAPITA INCOME WOULD INCREASE FROM \$520 TO \$1170. IN ANALYZING DISTRIBUTION OF INCOME, MINISTER PRESENTED ANALYSIS IN TERMS OF FIVE FACTORS, EDUCATION, REGION, AGE, SEX, AND ACTIVITY. MINISTER ARGUED THAT VIEWED IN LIGHT OF ALL THESE FACTORS, REGIONAL DIFFERENCES HAVE DIMINISHED SUBSTANTIALLY AS A FACTOR EXPLAINING DIFFERENCES IN INDIVIDUAL INCOME.

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9. ON INCOME DISTRIBUTION AMONG INDIVIDUALS MINISTER CLAIMED THAT AVERAGE REAL WAGES HAVE INCREASED AT AN ANNUAL RATE OF 57.7 PERCENT BETWEEN 1967 AND 1972 GIVING TOTAL INCREASE OF 32.4 PERCENT IN 5 YEARS. REDUCTION IN REAL WAGES BETWEEN 1963 AND 1965 WAS DUE TO IRRESPONSIBLE WAGE POLICIES PRIOR TO 1964 WHICH HAD RAISED REAL WAGES ABOVE LEVELS COMPATIBLE WITH ANY POSSIBLE REDUCTION IN INFLATIONARY PRESSURES. SOMEWHAT SURPRISINGLY MINISTER ACCEPTED BASIC DATA COMPARISONS BETWEEN 1970 AND 1960 CENSUSES. HIS DATA BOOK STATES THAT 10 PERCENT POOREST SEGMENT OF POPULATION INCREASED ITS REAL INCOME BETWEEN TWO CENSUS YEARS BY 28 PERCENT, BUT 10 PERCENT RICHEST INCREASED BY 67 PERCENT. "THUS, INEQUALITY IN INCOME INCREASED WITHOUT DOUBT, BUT ALL SEGMENTS OF POPULATION GAINED, ALSO WITHOUT DOUBT".

10. MINISTER STATED THAT ANNUAL REMITTANCE OF PROFITS ON FOREIGN INVESTMENT IN BRAZIL HAS AVERAGED ONLY 5.5 PERCENT. FOREIGN CAPITAL REPRESENTS ONLY 7 PERCENT OF TOTAL CAPITAL STOCK OF NATION AND FOREIGN PORTION WIDELY DISPERSED AMONG DIFFERENT NATIONS, WITH U.S. LEADING AT 37 PERCENT AND WEST LIMITED OFFICIAL USE
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GERMANY NEXT AT 11. FOREIGN INVESTMENT ALSO IS RATHER BROADLY DISTRIBUTED AMONG INDUSTRIAL SECTORS. THIS SPREAD GUARANTEES IMPOSSIBILITY THAT FOREIGN INVESTMENT COULD EVER BECOME A CHALLENGE TO NATIONAL AUTHORITY.

11. FOREIGN DEBT IS NO TIME BOMB FIXED TO DESTROY THE BRAZILIAN ECONOMY. FINANCIAL CREDITS ARE ONLY 34 PERCENT HIGHER THAN TOTAL RESERVES. BRAZIL'S BALANCE OF PAYMENTS HAS DEMONSTRATED AN "EXTRAORDINARY PERFORMANCE." BRAZIL'S RESERVES ARE SUFFICIENT TO MEET DEBT AMORTIZATION FOR THE NEXT THREE YEARS. DEBT MATURITIES HAVE BEEN STRETCHED OUT.

IN ANY CASE, ASSUMING FOREIGN DEBT IS THE ONLY WAY IN WHICH FOREIGN RESOURCES CAN BE TRANSFERRED TO BRAZIL. OF THE 22 PERCENT OF GROSS DOMESTIC PRODUCT INVESTED, 20 PERCENT IS PROVIDED BY DOMESTIC SAVINGS AND 2 PERCENT BY FOREIGN RESOURCES OBTAINED THROUGH BORROWING. BY APPLICATION OF FOREIGN RESOURCES, IT WILL BE POSSIBLE FOR BRAZIL TO DOUBLE PER CAPITA INCOME IN 8 TO 9 YEARS WHEREAS IT WOULD TAKE 11 TO 12 YEARS WITHOUT THIS ASSISTANCE.

12. MINISTER WAS QUESTIONED ABOUT POLICIES FOR INVESTING BRAZIL'S RESERVES. HE REPLIED HE COULD NOT DISCUSS THIS EXCEPT IN SECRET SESSION. MDB HAS FORMALLY ASKED THE CONGRESS TO REQUEST SUCH A SESSION WITH MINISTER.

13. COMMENT: EMBASSY BELIEVES FINANCE MINISTER DESIRED TO SEIZE OPPORTUNITY TO APPEAR BEFORE CHAMBER OF DEPUTIES, WITH ATTENDANT HEAVY PRESS, RADIO AND TV COVERAGE, IN ORDER TO PRESENT COMPREHENSIVE DEFENSE OF GOVERNMENT'S ECONOMIC POLICIES. IT IS ALSO PROBABLE THAT MINISTER WANTED TO TAKE OCCASION TO REPLY PUBLICLY TO FORMER AGRICULTURE MINISTER CIRNE LIMA'S LETTER OF RESIGNATION TO WHICH REFERENCE WAS MADE BY ONE OF DEPUTIES. ALTHOUGH THERE WERE SUBSEQUENT COMPLAINTS OF MINISTER'S TREATMENT OF DEPUTIES, EVENT WITHOUT DOUBT SERVED ALSO TO KEEP FINANCE MINISTER IN NATIONAL SPOTLIGHT IN IMPORTANT MANNER. WITH HIS IMPRESSIVE BATTERY OF STATISTICAL INFORMATION AND ANALYSIS, MINISTER TRANSFERRED BURDEN OF PROOF TO CRITICS OF GOVERNMENT'S POLICIES.

14. DEPUTIES ALSO COMPLAINED ABOUT THEIR LIMITED OPPORTUNITY TO QUESTION MINISTER, DUE TO HIS LONG PRELIMINARY EXPOSITION
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AND NUMBER OF DEPUTIES WISHING TO PARTICIPATE, BUT MANY FELT THAT FACT THAT DELFIM APPEARED BEFORE CONGRESS LENT PRESTIGE TO LEGISLATIVE BRANCH. IMPORTANCE OF EVENT WAS HIGHLIGHTED BY LARGE ATTENDANCE OF DEPUTIES, FULL BATTERY OF DELFIM ADVISERS AND OTHER GOVERNMENT OFFICIALS, TOGETHER WITH HEAVY PRESS COVERAGE. DELFIM OBVIOUSLY DID NOT CONVINCE HIS CRITICS OR ENEMIES BUT CERTAINLY MADE THE STRONGEST POSSIBLE CASE FOR THE RIGHTNESS OF GOVERNMENT DECISIONS AND POLICIES IN ECONOMIC AREA.
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